

American Stores Company

P H I L A D E L P H I A

ANNUAL REPORT

FOR THE YEAR

1947

*Notice of annual meeting of stockholders to be held
April 21, 1948, Proxy and Proxy Statement will be
mailed on or about March 31, 1948 to stockholders
of record at the close of business March 5, 1948.*

AMERICAN STORES COMPANY

424 North Nineteenth Street, Philadelphia 30, Pa.

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AMERICAN STORES COMPANY and Subsidiary Companies

Five Years' Summary—at a Glance

EARNINGS • DIVIDENDS • CAPITAL STOCK • SURPLUS

	1947	1946	1945	1944	1943
Sales.....	\$388,613,836	\$314,574,528	\$233,541,509	\$227,630,084	\$212,082,181
Profit before Income					
Taxes.....	9,954,888	14,103,948	6,540,192	6,351,590	4,484,084
Federal and State Taxes					
on Income.....	4,030,000	5,807,000	4,565,000	4,520,000	2,775,000
Net Income.....	5,924,888	4,501,348*	1,975,192	1,831,590	1,709,084
Per Share:					
Earnings.....	\$4.55	\$3.45*	\$1.51	\$1.40	\$1.31
Dividends.....	1.75	1.20	1.00	1.00	1.00
Capital Stock and Surplus	39,222,831	35,575,253	32,635,489	31,961,617	31,431,347
Current Assets.....	56,106,502	47,783,604	32,171,733	30,922,359	30,168,453
Current Liabilities.....	16,309,740	21,808,569	10,347,568	9,768,857	10,604,405
Working Capital.....	39,796,762	25,975,035	21,824,165	21,153,502	19,564,048
Number of Retail Stores at					
Year-end:					
Self-service Super					
Markets.....	708	665	606	595	579
Other Stores.....	1,213	1,347	1,358	1,425	1,487
Total Stores.....	1,921	2,012	1,964	2,020	2,066

**After special reserves of \$3,795,600*

Officers

<i>President</i>	WILLIAM PARK
<i>Vice-President and General Manager</i> . .	JAMES K. ROBINSON
<i>Vice-President and Secretary</i> . .	E. J. FLANIGAN
<i>Vice-President</i>	FRED W. JOHNSON
<i>Vice-President</i>	WM. H. EDEN
<i>Assistant to President</i>	FRED J. HEANEY
<i>Treasurer</i>	WILLIAM GOULD
<i>Assistant Treasurer</i>	S. C. ARCHER
<i>Assistant Treasurer</i>	JOHN R. PARK
<i>Assistant Secretary</i>	J. V. KEERS
<i>Assistant Secretary</i>	A. J. FAULHABER
<i>Assistant Secretary</i>	E. A. COLSON

Directors

SAMUEL ROBINSON	WILLIAM PARK
E. J. FLANIGAN	WM. M. M. ROBINSON
JAMES K. ROBINSON	JOSEPH GILFILLAN
JOHN M. HANCOCK	WILLIAM GOULD
FRED J. HEANEY	JAMES M. SKINNER

TRANSFER AGENTS

The Pennsylvania Company for Banking and Trusts
Philadelphia, Pa.

Commercial National Bank & Trust Company
New York, N. Y.

REGISTRARS

Liberty Title & Trust Company
Philadelphia, Pa.

City Bank Farmers Trust Company
New York, N. Y.

American Stores Company

REPORT TO THE STOCKHOLDERS

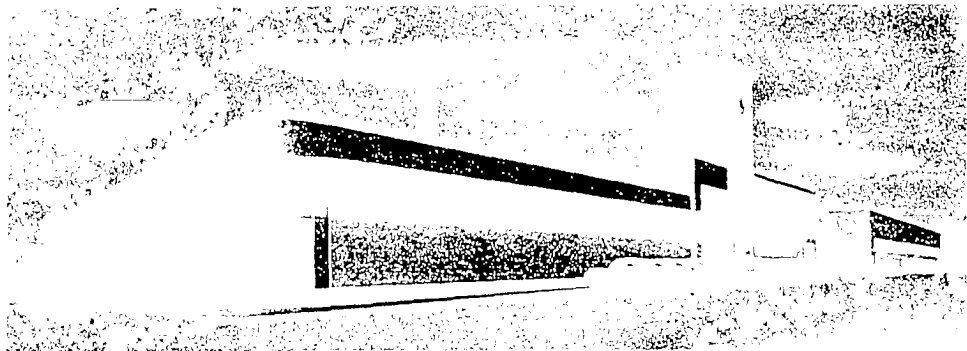
FOR THE YEAR ENDED

DECEMBER 31, 1947

THE annual report of your Company for the year ended December 31, 1947 is presented herewith together with a consolidated balance sheet as of that date, a statement of consolidated income and surplus for the period, comparisons in each case with the previous year, and the certificate of Barrow, Wade, Guthrie & Co., independent public accountants.

Results of 1947 Operations

Total sales of \$388,613,836., reflecting higher price levels, exceeded those of any year in the Company's history and were \$74,039,308. or approximately 23% greater than 1946 sales of \$314,574,528. Net income for the year amounted to \$5,924,888. after provision of \$4,030,000. for Federal and State income taxes. This was equivalent to \$4.55 per share of stock outstanding. In the year 1946, after appropriation of special reserves of \$3,795,600. and provision for Federal and State income taxes, the balance of income transferred to earned surplus amounted to \$4,501,348. or \$3.45 per share.



The recently completed Buffalo, N.Y., warehouse showing the super market which occupies a portion of one end of the building.

Four quarterly dividends of 35¢ each and a special dividend of 35¢, totalling \$1.75 per share, were declared during the year 1947 compared to \$1.20 per share for the year 1946.

At the year-end, the parent Company and its retail subsidiaries operated 1,921 retail stores as compared with 2,012 at the beginning of the year, a decrease of 91 units. However, the number of self-service markets increased by 43.

Inventories

Total inventories of \$43,919,743. at the year-end exceeded the inventories on hand at the end of the preceding year by 23%. The inventories are conservatively valued, are well balanced and in keeping with the present volume of retail sales. Practically all commitments for merchandise are for near-term deliveries and only in sufficient quantities to keep the retail outlets stocked with a full line.

Plant and Property Improvements

The Company proceeded during the year with its program of plant modernization and improvement. These improvements, designed for greater efficiency, will add substantially to the capacity of the storage, processing and retail facilities.

Additions and improvements during the year amounted to \$6,478-556. Provision for depreciation was made in the sum of \$1,644,268.

The warehouse and office building in Buffalo, N. Y., was completed in the fall of 1947. This one-story building embodies the most recent developments in warehouse construction and equipment. Included in the building is a bakery with a sufficiently large capacity to serve a wide area. A large super market has also been incorporated in the new warehouse building.

Another one-story warehouse has been leased and placed in operation to supplement existing facilities serving stores in the Philadelphia area.

At the present time it is planned that construction will commence soon on a new warehouse building in Wilkes-Barre, Pa. The inadequacy of the present warehouse is so extreme that the best interests of the Company would not be served by further postponement of this project.

As rapidly as conditions justify, the Company is proceeding with its plan of opening self-service markets, renovating the older stores and installing modern fixtures and equipment. Increasing emphasis is being placed on the importance of perishable merchandise in the stores. Considerable developmental work is being conducted to determine the practicality of prepackaging meat and produce in consumer units for self-service merchandising in refrigerated displays.

A substantial portion of our automotive and transportation equipment was replaced during 1947. Because of the limited availability of this type of equipment in prior years, many vehicles had necessarily been retained in service beyond the point of economical operation.

One of the new tractor trailers added to fleet during the year.



New Financing

Because of the need to provide funds for additional facilities and the replacement of equipment necessarily deferred during the war years and because of the need for additional working capital required to sustain sales at the present level, the Company borrowed during the year \$15,000,000. from the Metropolitan Life Insurance Company, \$7,500,000. being at the rate of $27\frac{7}{8}\%$ per annum and \$7,500,000. at the rate of 3% per annum. This indebtedness will mature on August 1, 1967 subject to a repayment schedule beginning August 1, 1952 amounting to $4\frac{1}{2}\%$ annually of the principal sum borrowed. The Company at its option on August 1 of each year, commencing in 1948 and continuing to 1966, may prepay a principal amount, without premium, not in excess of a further $4\frac{1}{2}\%$ of the principal amount borrowed. The Company has a further option of prepaying the notes outstanding in the amount of \$250,000. or a multiple thereof at premiums ranging from 3% down to one quarter of 1% over the period covered by the loan.

Employee Relations

Satisfactory relations were maintained with the Company's employees during the year. The policy of the Company is directed toward a mutual understanding of the problems confronting employees and management.

Payments to the Equitable Life Assurance Society in respect of the Employees Retirement Plan totalled \$918,117. in 1947, \$600,644. being the Company's portion of the current cost and the balance representing approximately 10% of the initial past service liability. The payment made with respect to past service has no effect on the year's earnings as \$190,484. of this amount is charged against the reserve provided for this purpose in 1946 and the remaining \$126,989. is offset by an equivalent reduction in income taxes. One hundred employees retired under the



Store employees receiving instruction in the proper method of displaying fresh fruits and vegetables at one of the training school classes.

Supplementary Employees Retirement Plan and the Employees Retirement Plan, both of which were approved by the stockholders in 1946.

Death benefits totalling \$86,500. were paid to deceased employees' beneficiaries under the Company's group life insurance program during the year.

The Company is continuing the operation of the training schools where retail store personnel is instructed in the various phases of our business. During 1947, approximately 2880 men and women attended these schools where they were taught the technique of performing their particular tasks effectively.

The Board of Directors and the Officers acknowledge the continued loyalty and support of all employees which made possible the accomplishments of the past year.

William Park

President

March 20, 1948

American Stores Company

Comparative Consolidated Balance Sheet

ASSETS	December 31	
	1947	1946
CURRENT ASSETS		
Cash.....	\$10,474,913	\$10,805,343
Accounts Receivable.....	1,711,846	1,371,231
Inventories—at lower of cost or market.....	43,919,743	35,607,030
TOTAL CURRENT ASSETS.....	56,106,502	47,783,604
Mortgages, etc.....	274,001	330,892
FIXED ASSETS		
Land, Buildings, Machinery, Equipment, Fixtures, etc.—at cost.....	29,280,465	24,247,054
Less: Reserve for Depreciation.....	11,603,791	10,853,749
	17,676,674	13,393,305
Unamortized Cost of Leasehold Improvements.....	563,159	306,697
Goodwill.....	1	1
DEFERRED CHARGES		
Prepaid Insurance, Taxes, etc.....	525,822	434,979
	\$75,146,159	\$62,249,478

NOTE: Under the terms of a loan agreement dated August 1, 1947 the company borrowed \$15,000,000 from Metropolitan Life Insurance Company, \$7,500,000 being at the rate of 27½% per annum and \$7,500,000 at the rate of 3% per annum. These notes are due August 1, 1967, subject to a repayment schedule beginning August 1, 1952 amounting to 4½% annually of the principal sum borrowed. Under the provisions of the loan agreement cash dividends on the common stock may not exceed by more than \$1,000,000 the difference between (a) consolidated net income

nd Subsidiary Companies

ated Balance Sheet

LIABILITIES AND CAPITAL

	December 31	
	1947	1946
CURRENT LIABILITIES		
Notes Payable—Banks.....	\$ 1,000,000	\$ 6,200,000
Accounts Payable and Accrued Charges.....	9,361,637	8,372,026
Dividend Payable.....	910,924	455,462
Accrued Federal and State Taxes.....	764,644	817,535
Reserve for Federal Taxes on Income.....	4,272,535	5,963,546
TOTAL CURRENT LIABILITIES.....	16,309,740	21,808,569
Purchase Obligations.....	229,172	286,465
Notes Payable, due 1952-67.....	15,000,000	—
RESERVES		
Possible Inventory Price Declines.....	1,500,000	1,500,000
Employees' Retirement Income Benefits.....	2,096,379	2,295,600
Contingencies.....	788,037	783,591
	4,384,416	4,579,191
CAPITAL STOCK AND SURPLUS		
Common Stock—no par value		
Authorized—1,500,000 shares		
Issued (December 31, 1947—1,301,320 shares		
December 31, 1946—1,400,000 shares).....	18,008,555	19,374,156
Earned Surplus.....	21,214,276	19,721,206
Less: Treasury Stock—98,680 shares.....	—	3,520,109
	39,222,831	35,575,253
	\$75,146,159	\$62,249,478

subsequent to December 31, 1946 and (b) the aggregate of all sums thereafter paid as dividends (other than stock dividends) and in the reacquisition or retirement of shares of stock of the company. The retirement during the year 1947 of 98,680 shares of common stock reacquired prior to December 31, 1946 is specifically excluded from the provisions of this agreement. At December 31, 1947 the amount of earned surplus free of such restriction was \$4,647,578.

American Stores Company and Subsidiary Companies

Comparative Statement of Consolidated Income and Surplus

INCOME ACCOUNT

	Year ended December 31	
	1947	1946
Sales—Retail Stores.....	\$380,861,053	\$307,452,058
Sales—Others.....	7,752,783	7,122,470
	<u>388,613,836</u>	<u>314,574,528</u>
COST OF SALES AND OPERATING EXPENSES		
Cost of Merchandise Sold, including Warehousing and Transportation Expenses.....	331,247,465	262,485,942
Wages, Rents, Advertising, Operating and Administrative Expenses.....	45,578,964	36,552,857
Depreciation.....	1,644,268	1,394,531
	<u>378,470,697</u>	<u>300,433,330</u>
PROFIT FROM OPERATIONS.....	<u>10,143,139</u>	<u>14,141,198</u>
Interest on Loans, etc.....	196,797	57,764
Less: Income from Investments, etc.....	8,546	20,514
	<u>188,251</u>	<u>37,250</u>
PROFIT BEFORE INCOME TAXES....	<u>9,954,888</u>	<u>14,103,948</u>
Federal and State Taxes on Income.....	4,030,000	5,807,000
NET INCOME.....	<u>5,924,888</u>	<u>8,296,948</u>
SPECIAL RESERVES		
For possible decline in prices of merchandise inventories.....	—	1,500,000
For estimated cost, less tax benefits to be derived in future years, of the unfunded portion of past service single sum liability under the Employees Retirement Plan \$1,695,600, and under the Supplementary Retirement Plan \$600,000.....	—	2,295,600
	<u>—</u>	<u>3,795,600</u>
BALANCE OF INCOME TRANSFERRED TO EARNED SURPLUS..	<u>\$ 5,924,888</u>	<u>\$ 4,501,348</u>
EARNED SURPLUS		
Balance at beginning of year.....	\$ 19,721,206	\$ 16,781,442
Balance transferred from Income Account.....	5,924,888	4,501,348
	<u>25,646,094</u>	<u>21,282,790</u>
Dividends (1947—\$1.75 per share, 1946—\$1.20 per share).....	2,277,310	1,561,581
Excess of cost over average paid-in value of 98,680 shares of common treasury stock retired and cancelled.....	2,154,508	—
	<u>4,431,818</u>	<u>1,561,581</u>
BALANCE AT END OF YEAR.....	<u>\$ 21,214,276</u>	<u>\$ 19,721,206</u>

BARROW, WADE, GUTHRIE & CO.

Accountants and Auditors

Girard Trust Building

Philadelphia, Pa.

*To the Board of Directors of
American Stores Company:*

We have examined the consolidated balance sheet of American Stores Company and its subsidiary companies as of December 31, 1947, and the statement of consolidated income and surplus for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards and included all procedures which we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and related statement of consolidated income and surplus present fairly the consolidated position of American Stores Company and its subsidiary companies at December 31, 1947, and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

BARROW, WADE, GUTHRIE & CO.

March 5, 1948

*Acme Market, Darby, Pa.,
one of the stores modernized
during the past year.*



*Acme Market,
Haddon Heights, N. J.,
opened in 1947.*

